



Internship Report

Submitted to

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Internship Report

On

***“SME LOAN ACTIVITIES AND RECONCILIATION PROCESS OF
BRAC BANK: A Study on BRAC Bank Limited”***



Letter of Transmittal

20th May 2016

Nusrat Hafiz ,

Lecturer, BRAC Business School,

BRAC University, Mohakhali.

Subject: Submission of Internship Report

Madam,

It is an immense pleasure for me to submit my internship report. I was assigned to work at the Head office of BRAC Bank Limited. These three months of the internship program helped me to learn a lot. This gave me the opportunity to theoretical knowledge in practical field, which will help me in my future career.

It would be a profound pleasure for me if the report can serve its purpose. I would be available in any time to explain you any queries if feel necessary.

Sincerely,

.....

Homaira Ferdous

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Acknowledgement

First of all I would like to thank almighty Allah for giving me the patience and proper time to complete the internship program successfully. I would like to express special gratitude to my internship supervisor **Biswas Ashraful Islam**, Associate Manager, Treasury & FI Operations, BRAC Bank Limited. It was his encouragement, patience and valuable feedback that enabled me to complete this report.

The report contains high voltage information's and its all information is collected from BRAC Bank Limited. This reports major objective is to know the details of SME loan & evaluation of BRAC Bank Limited.

This report has some Analysis and major Findings of the study & some recommendations and conclusion.

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Homaira Ferdous

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EXECUTIVE SUMMERY

This report is prepared as part of BBA program where a description of overall SME performance done by BRAC Bank Limited are covered. As like other banks, it has also a general SME banking section where the major tasks are like SME loan lending activities, reconciliation process, basic appraisal of SME loan; disbursement procedures of SME loans are done. BBL is occupied with great team effort with a vision to spread out banking service to the customers. The SME branches help the Head Office to run the overall SME activities smoothly. To sum up all the personnel are dedicated to their responsibilities to serve the best to the clients. As a result this bank has gained goodwill within a short time. In addition the popularity of this bank is rising day by day. This report covers the overview of BBL's objectives, functions, management, SWOT analysis and other associated things related with the banking performance activity. Lastly, some probable recommendations have been given to enlarge the performance of BRAC Bank Limited.



PART ONE
INTRODUCTION

1.01 Background of the study:

Through this report an individual can expect to have a good knowledge and understanding on the various methods of operation performed by BRAC BANK Limited particularly in the area of Financial Institutional Services. From the last three months of the bank's disbursement, everything is tried to include in precise form. I have tried my level best to put more emphasis on the SME loan and its recovery process since it was the topic of my internship program. This report is to be used only for the academic purpose. I have collected all the necessary and relevant data from various primary, secondary sources. After three months long hard labor, it has become possible for me to make the report comprehensive and factual. The data is truly and strictly confidential and no one can use its components in full or partial. I would like to give thanks to everyone who has helped and encouraged me in the process of preparing this report.

1.02 Origin of the Report:

As a mandatory part of the BBA program, all the students of Business Administration department of BRAC University of Bangladesh have to undergo a three-month long internship program with an objective to gain practical knowledge about business world. After this program, the students have to submit an internship report, which reflects their activities during the program. I joined the Brac Bank Limited to undergo this internship program for the period of 3 months starting from 13th March 2016 to 13 May 2016. In BBL I was assigned in the Treasury & FI operations. My organizational supervisor was **Biswas Ashraful Islam**, Associate Manager, Treasury & FI Operations. My project is on **“Evaluation of the effectiveness of SME financing system of BRAC Bank Limited”**

1.03 Objective of the Report ,Broad Objectives and Specific Objectives

- ❖ To know SME loan lending activities.
- ❖ To analyze the reconciliation process.
- ❖ To know the terms and conditions of SME loans.
- ❖ To know the disbursement procedures of SME loans.
- ❖ To make some policy implications and conclusion to further the development of SME loan products of BBL.
- ❖ To access the key performance indicator of the department.
- ❖ To know how the SME loan borrowers would behave in repaying their loan.
- ❖ To know whether SME loan borrowers are dully paying their installments or not.

1.04 Methodology, Sources of data:

I would mainly take an analytical approach on my report. Both primary and secondary sources are used for data collection. Primary sources of data is collected from discussion with relevant person of BBL. Secondary sources of is collected from the Loan application form, Finacle Banking System Software, annual reports, other published reports and official website of the BRAC Bank Ltd.

For collecting the required data, I have used different sources or methods like the following:

Primary data sources:

- ❖ Interviews of Customer relationship officers (CROs)
- ❖ Direct observation.

Secondary data sources:

- ❖ Operational manual.
- ❖ Official Website.
- ❖ Banking journals.
- ❖ BBL newsletters.
- ❖ Research papers.

1.05 Scope:

Scope of the study is quite clear. Since Central Support, operation help desk and reconciliation department controls the SME loan activities in the bank, studying these core themes,

- ❖ Opportunities are there to learn other aspects of SME matters.
- ❖ Concept of SME and its impact in overall economy of Bangladesh.
- ❖ Entrepreneurship development situation through SME banking.
- ❖ Importance of SME banking in context of Bangladesh.
- ❖ Small entrepreneurs of rural –urban spectrum are enjoying the BRAC BANK LIMITED loan facility without the presence of bank at rural area.

1.06 Limitations:

The study has suffered from a number of barriers-

- ❖ Data from BRAC BANK LIMITED is highly confidential for the outside people and I had no authority to use the core banking software.
- ❖ BBL changes its core banking software, MBS to Finacle that's why all the employees are very busy with their work, sometimes I had to wait more than one week for a piece of information.
- ❖ Time is also a big constraint for my research. I have to submit a broader deal in a shorter form of outcome.
- ❖ I had to go under my day-to-day job responsibility that I was supposed to do so. So I could not get some more time to spend in collecting data for preparing my internship report.



PART TWO
ORGANIZATION PROFILE

2.0 History Of BRAC Bank Limited:

BRAC Bank Limited, one of the latest generation of commercial banks started its journey on July 04, 2001. It is an affiliate of BRAC (Bangladesh Rural Advancement Committee), one of the world's largest non-governmental development organizations founded by Fazle Hasan Abed in 1972. It has been the fastest growing Bank in 2004 and 2005. The Bank operates under a "triple bottom line" agenda where planet profit and social responsibility go hand in hand as it strives towards a poverty-free, enlightened Bangladesh. BRAC Bank Limited, with institutional shareholdings by BRAC, International Finance Corporation (IFC) and Shore Cap International, has been the fastest growing Bank in Bangladesh for the last three consecutive years. In the recent past the bank has gone public with price of shares reaching impressive heights, further showing promising future. BRAC Bank, a fully operational Commercial Bank, focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which hitherto has remained largely untapped within the country. In the last five years of operation, the Bank has disbursed over BDT 102,729 million in loans to nearly 50,000 small and medium entrepreneurs in 2013. And this year Bank's disbursement plan is BDT 180,673 million. The management of the Bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh. Since inception in July 2001, the Bank's footprint has grown to 88 branches, more than 400 SME unit offices and 333 ATM sites across the country, and the customer base has expanded to 500,000 deposit and 100,000 advance accounts through 2013. In 2013, BRAC Bank had a \$578 million portfolio consisting of around 65,000 loans with an average loan size of \$20,000. It has around 400 regionally-placed loan processing units offering services in the heart of rural and urban communities and employs over 700 business loan officers – around 70% of total staff. In addition to small business lending, BRAC Bank has fast growing remittance, savings mobilization and consumer lending businesses. In the years ahead BRAC Bank expects to introduce many more services and products as well as add a wider network of SME unit offices, Retail Branches and ATMs across the country.

2.01 Background of the Organization:

Brac Bank Limited is a scheduled commercial bank in Bangladesh. It established in Bangladesh under the Banking Companies Act, 1991 and incorporated as private Limited company on 20 May 1999 under the Companies Act, 1994. The primary objective of the Bank is to provide all kinds of banking business. At the very beginning the Bank faced some legal obligation because the High Court of Bangladesh suspended activity of the Bank and it could fail to start its operations till 03 June 2001. Eventually, the judgment of the High Court was set aside and dismissed by the Appellate Division of the Supreme Court on 04 June 2001 and the 7 Bank has started its operations from July 04, 2001. The Chairman of the Bank is Sir Mr. Fazle Hasan Abed. The bank has made a reasonable progress due to its visionary management people and its appropriate policy and implementation.

2.02 Logo of Brac Bank Limited:



Logo Meaning

The logo meaning of BRAC Bank has been prepared keeping in mind the goal of the organization. The square structure of the logo means solid and strong.



The golden color in the lower portion of the logo means the golden Bangladesh & her fertile land. The Blue color in the upper portion means the sky with huge & unlimited opportunity. The White color curve means Growth and Progress. White circles in the blue color means the flashing sun that gives light to everywhere.

Company Slogan:

BRAC Bank Limited Company's slogan is "Aastha Obichol" . it promises trustworthiness as well as being the " Dependable friends in Banking" will hold true for years to come.

2.03 Corporate Vision:

“Building a profitable and socially responsible financial institution focused on Markets and Business with growth potential, thereby assisting BRAC and stakeholders build a "just, enlightened, healthy, democratic and poverty free Bangladesh".

2.04 Corporate Mission:

- ❖ Sustained growth in 'small & Medium Enterprise' sector
- ❖ Continuous low cost deposit growth with controlled growth in Retained Assets
- ❖ Corporate Assets to be funded through self-liability mobilization. Growth in Assets through Syndications and Investment in faster growing sectors
- ❖ Continuous endeavor to increase fee based income
- ❖ Keep our Debt Charges at 2% to maintain a steady profitable growth
- ❖ Achieve efficient synergies between the bank's Branches, SME Unit Offices and BRAC field offices for delivery of Remittance and Bank's other products and services
- ❖ Manage various lines of business in a fully controlled environment with no compromise on service quality

2.05 Corporate Values:

The Bank’s Strength emanates from its owner - BRAC. This means, it will hold the following values and will be guided by them as it does its jobs.

- ❖ Value the fact that we are a member of the BRAC family
- ❖ Creating an honest, open and enabling environment
- ❖ Have a strong customer focus and build relationships based on integrity, superior service and mutual benefit
- ❖ Strive for profit & sound growth
- ❖ Work as a team to serve the best interest of our owners
- ❖ Relentless in pursuit of business innovation and improvement
- ❖ Value and respect people and make decisions based on merit
- ❖ Base recognition and reward on performance
- ❖ Responsible, trustworthy and law-abiding in all that we do.

2.06 Goals:

BRAC BANK LIMITED will be the absolute market leader in the number of loans given to small and medium sized enterprises throughout Bangladesh. It will be a world-class organization in terms of service quality and establishing relationships that help its customers to develop and grow successfully. It will be the Bank of choice both for its employees and its customers, the model bank in this part of the world.

2.07 Objectives of the Bank:

The objective of BRAC BANK LIMITED is specific and targeted to its vision and to position itself in the mindset of the people as a bank with difference. The objective of BRAC BANK LIMITED is as follows:

- ❖ Building a strong customer focus and relationship based on integrity, superior service.
- ❖ To creating an honest, open and enabling environment
- ❖ To value and respect people and make decisions based on merit
- ❖ To strive for profit & sound growth
- ❖ To value the fact that they are the members of the BRAC family – committed to the creation of employment opportunities across Bangladesh.
- ❖ To work as a team to serve the best interest of our owners
- ❖ To relentless in pursuit of business innovation and improvement
- ❖ To base recognition and reward on performance
- ❖ To responsible, trustworthy and law-abiding in all that we do
- ❖ To mobilize the savings and channeling it out as loan or advance as the company approve.
- ❖ To establish, maintain, carry on, transact and undertake all kinds of investment and financial business including underwriting, managing and distributing the issue of stocks, debentures, and other securities.
- ❖ To finance the international trade both in import and export.
- ❖ To develop the standard of living of the Limited income group by providing Consumer Credit.

2.08 Bank's Culture:

Bank has adopted trust as a corporate value which is acronym for team work, respect for all people, unquestionable integrity, excellence in everything BRAC BANK LIMITED of SME do, Sense of urgency in getting things done and total commitment. All employees are expected to conduct themselves in accordance with the rules and regulations of the bank.

2.9 Departments of BRAC BANK Limited:

If the jobs are not organized considering their interrelationship and are not allocated in a particular department it would be very difficult to control the system effectively. If the departmentalization is not fitted for the particular works there would be chaotic situation and the performance of a particular department would not be measured. BRAC BANK Limited has does this work very well. Departments are as follows:

1. Human Resources Department
2. Financial Administration Department
3. Central Support, operation help desk and reconciliation
4. Credit Division
5. SME Division
6. Internal Control & Compliance Department
7. Marketing & Product Development
8. Impaired Asset Management
9. Remittance Operation Department
10. Treasury Front
11. Treasury Back
12. General Infrastructure Service
13. Information Technology Department
14. Customer Service Delivery
15. Cards Division
16. Call Center
17. Cash Management
18. Secured Remittance department
19. Women Entrepreneur Cell
20. Payment Service

2.10 Business Units:

There are five different business units generating business BRAC BANK Limited:

- Small & Medium Enterprise (SME)
- Corporate Banking
- Retail Banking
- Treasury
- Remittance Services

All the units are being operated in a centralized manner to minimize costs and risks.

2.11 BRAC Bank subsidiaries:-

BRAC EPL Stock Brokerage Limited was established to provide the stock brokerage business in Bangladesh. It has corporate membership of Dhaka Stock Exchange and Chittagong Stock Exchange.

BRAC EPL Investment Limited delivers a complete range of Investment Banking services with established merchant banking activities such as Issue Management, Corporate Advisory, Corporate Finance, Underwriting and Portfolio Management.

BRAC Saa'an exchange Limited was established to take over transfer of funds and exchange business from UK.

B-Kash Limited was established to money transfer service in Bangladesh. The Bank has obtained licenses from Bangladesh Bank for rendering such service.

BRAC IT Services Ltd. (biTS) is an IT Solution and Services company and is a subsidiary jointly owned by BRAC Bank and BRAC. biTS has been created in 2013 during the joining of a subsidiary IT company. It providing technology solutions and managed IT Services in Bangladesh

2.12 Member of Global Alliance for Banking on Values (GABV) :

BBL is the member of The Global Alliance for Banking on Values (GABV) is a membership Organization, made up of eleven of the world's leading sustainable banks, Founded by BRAC Bank in Bangladesh, Shore Bank in the US, and Triodos Bank in the Netherlands, the bank's Members have to meet three criteria:

- They are independent and licensed banks with a focus on retail customers
- With a minimum balance sheet of \$50 million;

Most significantly, they should be committed to social banking and the triple bottom line of People, planet and profit. Their main purpose is to develop economically interdependent and Responsible to current and future generations.



PART THREE

SME LOAN ACTIVITIES AND RECONCILIATION PROCESS OF BRAC BANK

BRAC Bank is trying to develop economic condition of the country. So the bank provides loan facility 3 to 30 lacs taka to that small and medium enterprise that has no easy access to banks and financial institutes. The bank already established 91 Zonal offices and 429 unit offices all over the country and 1309 Customer Relation Officers (CRO) providing door-to-door service to clients. Till April 2014, the bank provides loan facilities to more than 265,000 clients which amount is Tk. 10,000 crore. The success of SME will largely depends on the selection of a business and man behind the business. BRAC Bank provides this facility to those whose business operation is minimum one year and environment friendly business. It provides no loan facility to tobacco business. The business should be legally registered and must have valid trade license. The entrepreneur should be physically able, preferably between the ages 25 to 50. Entrepreneur must have the necessary technical skills to run the business and acceptable social standing in the community, as an example people should speak highly of him or her. BRAC Bank gives equally important to the guarantor to getting the SME facility. The guarantor must have the ability to repay the entire loan and is economically solvent. The guarantor should know the entrepreneur reasonable well and should preferable live in the same community.

SME loan can be repaid in two ways,

- 1) In equal monthly loan installment with monthly interest payment.
- 2) By one single payment at maturity, with interest repayable a quarter ends residual on maturity. Customer relation officers search new potential customer by providing door-to-door service. They talk with clients and monitor their manners, activities of their business and provide the loan to the potential customers. The customer relation officers also monitor the borrower's activities after the loan disbursement.

Monitoring also facilitates the buildup of an information base for future reference. Bank has to prepare the periodic reconciliation statements to identify any mismatch. Reconciliation is the process of systematically comparing the balance of bank statement with the balance as per the company's ledger and explaining any differences and taking necessary measures to correct the wrong entries. It is an important internal control mechanism of the bank.

The responsibilities of reconciliation of BRAC Bank are centralized and given to Central Operations. There is a separate devoted team under the Central Operations for identifying the unmatched items, analyzing the same and guide to the initiating departments to do the rectification. Reconciliation section of Central Operations prepares and submits a status report on monthly basis and the same to all concerned departments and Operational Risk Management Departments for their information and monitoring. Also submits a status report to MD & CEO and DMD, CIO and Head of Operations for their information. The core competence of the BRAC Bank is to provide the fastest loans to the clients in this country. To retain this competitive advantage BRAC Bank would provide computer and palmtop facilities whether they

can give fastest services to clients than other banks. Also to convey the customer focus, BRAC Bank is trying to reduce collateral securities than other banks. It provides more collateral free secured loans to capture the market.

The SME, business of Brac Bank Limited is mostly dependent on corresponding banking relationship. BRAC Bank has to open accounts with the other banks in the remote areas where banks representation not available. The corresponding bank accounts are used for SME disbursement, realization, remittance and cash management purpose. Every month we have found a huge number of entries un-reconciled between the bank and the corresponding banks book. Bank has to prepare the periodic reconciliation statements to identify any mismatch. Reconciliation is the process of systematically comparing the balance of bank statement with the balance as per the company's ledger and explaining any differences and taking necessary measures to correct the wrong entries. It is an important internal control mechanism of the bank.

SME Banking Division is a business division of BRAC Bank Limited that deals with Small and Medium sized Entrepreneurs involved in different types of business. SME banking division primarily provides loans to small and medium sized trading, manufacturing, service, agriculture, non-farm activities and agro-based industries located across the country. The loan products offered by SME Banking Division are **ANONNO, PROTHOMA RIN, PROSHAR, BIZNESS LOAN, TRADE PLUS and BUSINESS EQUITY LOAN (BEL)**. The SME loan range is from BDT 2 lac to BDT 350. SME banking division offers Term loan, Continuous loan and Letter of Credit. Short Term: up to 9 months, Long Term: from 12 to 120 months.

To avail a funded SME loan 15 to 25 days are required and for Non Funded SME loan the timeframe is 1 to 2 days from the date of application, if all the necessary papers are in order. At present generally, loans are only given to entrepreneurs who have a running business of at least one year.

The interest rate of SME loans ranges from 14% to 17.8% on the reducing balance method, depending on the amount and the loan scheme. Collateral is necessary for loan amounts of BDT 10 lac and above. Generally collateral is not necessary for loan amounts ranging from BDT 2 lac to below BDT 10 lac.

It is compulsory for a borrower to have a current A/C either with BBL or with a correspondent bank branch if there is no BBL branch or SME sales & service center in the locality. The City Bank Ltd, Janata Bank, Bangladesh Krishi Bank, Pubali Bank Ltd, Agrani Bank, Rupali Bank Limited are the correspondent banks of BRAC Bank. Bank transaction record is mandatory for Anonno, Bizness Loan, Trade Plus & Business Equity Loan only.

The SME loans are usually given for working capital finance, fixed asset finance and trade finance. Loan amount is decided based on the fund requirement calculation, not on the basis of

collateral value. However, Lawyer's opinion is necessary for mortgage purpose. Registry Mortgage is necessary generally when the loan amount is BDT 10 lac or more.

Working capital finance can be maximized up to 100% of the net required working capital or 75% of the sum total of inventory, advance payment and receivables whichever is lower. Fixed asset finance cannot be more than 90% of the purchase price, but the debt equity ratio in fixed assets investment in the projected year cannot be more than 1 (one). A customer can apply for a repeat loan when 80% of the previous loan tenure has passed and made a satisfactory repayment. If all installments are paid on due dates, they will also get a concession on the existing interest rate.

Generally SME only provides business loans in the enterprise's name. However, loan can be sanctioned in the personal name of the borrowers, if the tenant borrower cannot obtain trade license showing his name as owner of the business due to the conditionality imposed by the market committee/owner. Fire insurance is mandatory to avail a loan except for a few concerns like poultry, fishery, farming & wood business (preserve under water).

3.01 Obstacles and Challenges faced by BRAC Bank Limited in SME

At the beginning phrase of the SME, BRAC Bank Limited faced lots of obstacles and challenge. There was a shortage of capital, absence of high technology, high employee turnover, lack of Skills entrepreneur, no trade license of businessman etc. These problems are describe in brief in below,

- ❖ Financial Constraint.
- ❖ Absence of High Technology.
- ❖ Lack of Skills Entrepreneur.
- ❖ High Employee Turnover.
- ❖ Trade License.
- ❖ Employee Skills.
- ❖ Lack of Information

3.02 SME Activities of BRAC Bank Limited

The bank has incorporated double bottom line approach in its operation –

- 1) Making profit by mobilizing fund from urban to rural areas.
- 2) Performing social responsibility by creating an entrepreneurial class.

Along with Small & Medium Enterprise financing, SME banking division is also actively working in creating awareness and imparting knowledge to SMEs about financial record keeping, dealing with modern banks and industry best practices in SME operation. In an attempt to ensure customer awareness and to strengthen the relationship with customers, SME banking division arranged informative campaigns and road shows for SMEs located across the country.

3.03 Process:

For disbursement of any SME loan a clean CIB report is required. A Valid trade license, rental deed, and any other authorization are the primary documents that are needed to get an SME loan. A number of information is required along with the loan application form i.e. Inventory list, Accounts Receivables list, Accounts Payables list, Buyers list, Suppliers list, and Fixed Asset list.

3.04 Guarantors:

Minimum two guarantors are required for an SME loan, one of whom must be a third party guarantor and another from his /her own family. A third party guarantor may be a businessman or a service holder from the private sector with minimum wealth of 125% of the loan amount. However, for a family guarantor the net wealth condition is not applicable. A guarantor of SME loan can not avail a loan from BRAC Bank as long as he/she is a guarantor.

3.05 SME Banking System:

- ❖ Every SME unit office will have a current account with a designate bank in the area of a unit office. This bank account will be opened and operated by SME head office.
- ❖ To meet petty expense such as stationary, entertainment and other incidental expense, all unit office will be allowed patty cash of Tk. 2000/=
- ❖ The cheque of this patty cash will be issued from SME head office in the beginning of the month. All vouchers relating to such expenses should be send to the accounts from SME head office
- ❖ All the clients must open their account with the same bank account on the same day after receiving those from the borrowers, who should give a received as prescribed.
- ❖ Cheques should be deposited to the SME unit office bank account on the same day after receiving those from the borrowers, who should give a receipt as prescribed.
- ❖ Any loan installment credit should be transferred to the SME head office account in Gulshan, Dhaka on the same day as per agreement with bank.
- ❖ Every CRO should have an individual account in the same bank branch for their personal use and to receive their salaries and other benefits.

- ❖ Payment of lease rentals, utility bills and cheque drawn on the SME unit office bank account and issued by SME head office should pay other expenses (Large amount). If these bills are small amount, they should be paid from the petty cash and replenished later.
- ❖ All the financial accounting entries will be passed at the SME head office and will maintain separately on the basis of the unit office.

3.6 Selection of Potential Enterprise for SME:

3.6.1 Enterprise selection Criteria:-

The success of SME will largely depend on the selection of a business and man behind it. In terms of the business (Enterprise), the following attributes should be sought:

- ❖ The business must be in operation for at least one year
- ❖ The business should be environment friendly, no narcotics or tobacco business
- ❖ The business should be legally registered, as an example, valid trade license, income tax or VAT registration, wherever applicable.
- ❖ The business should be in legal trade, as an example, smuggling will not be allowed or socially unacceptable business will not be entertained.
- ❖ The business must have a defined market with a clear potential growth
- ❖ The business must be located ideally close to the market and the source of its raw materials/suppliers. It should have access to all the utilities, skilled manpower's that are required.
- ❖ Any risk assessed by the management in turn will become a credit risk for the bank. So effort should make to understand the risk faced by the business.

3.6.2 Entrepreneur Selection Criteria:-

In order to understand the capability of the management behind the business, the following should be assessed:

- ❖ The entrepreneur should be physically able and in good health, preferably between the age of 25-50. If he/she is an elderly person closer to 50, it should be seen what the succession process will be and whether it is clearly defined or not.
- ❖ The entrepreneur must have the necessary technical skill to run the business, i.e. academic background or vocational training, relevant work experience in another institution or years of experience in this line of business.

- ❖ The entrepreneur must have an acceptable social standing in the community (People should speak highly of him), he should possess a high level of integrity (doesn't cheat anyone, generally helps people), and morally sound (Participates in community building)
- ❖ The entrepreneur must possess a high level of enthusiasm and should demonstrate that he is in control of his business (Confidently replies to all queries) and has the ability to take up new and fresh challenges to take the business forward.
- ❖ Suppliers or creditors should corroborate that he pays on time and is general in nature
- ❖ Clear-cut indication of source of income and reasonable ability to save.

3.6.3 Guarantor Selection Criteria:-

Equally important is the selection of a guarantor. The same attribute applicable for an entrepreneur is applicable to a guarantor. In addition he should possess the followings:

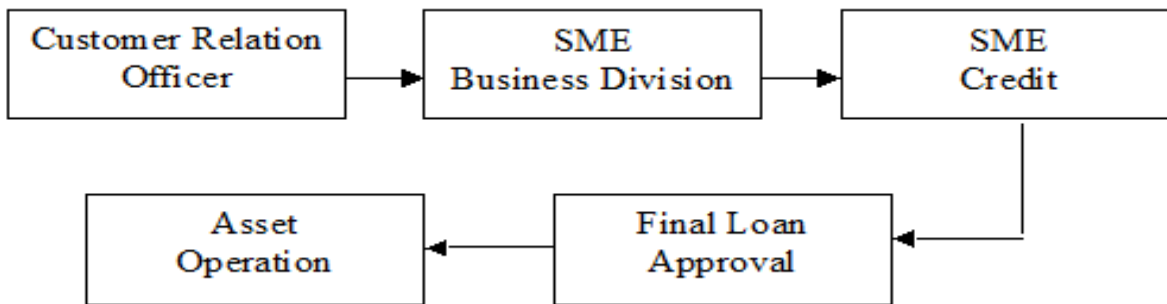
- ❖ The guarantor must have the ability to repay the entire loan and is economically solvent (check his net worth)
- ❖ The guarantor should be aware about all the aspect of SEDF loan and his responsibility
- ❖ Govt. and semi-govt. officials can be selected as a Guarantor such as schoolteacher, college teacher, doctor etc.
- ❖ Police, BDR and Army persons, political leaders and workers, and religious leader cannot be selected as a guarantor.
- ❖ The guarantor should know the entrepreneur reasonable well and should preferably live in the same community.

3.7 Organizational Layout of BRAC Bank SME Loan:-

- ❖ Credit Division
- ❖ Business Development Division
- ❖ MIS Division

SME Loan process flow is shown below-

When a client comes for a loan request, first he meets a CRO, then the following process take place:



3.8 Monitoring:

Monitoring is a system by which a bank can keep track of its clients and their operations. So monitoring is an essential task for a CRO to know the borrowers activities after the loan disbursement. This also facilitates the buildup of an information base for future reference.

3.9 Importance of Monitoring:

Through monitoring a CRO can see whether the enterprise invested the sanctioned amount in the pre-specified area of his business, how well the business is running, the attitude of the entrepreneur, cash credit sales and purchase, inventory position, work in process and finished goods etc, This information will help the CRO/BRAC BANK LIMITED to recover the loan accruing to the schedule and to take the necessary decisions for repeat loans. Moreover, monitoring will also help to reduce delinquency. Constant visit over the client /borrower ensures fidelity between the bank and the borrower and tends to foster a rapport between them.

Area of Monitoring: The purpose is to know the entire business condition and all aspects of the borrowers so that mishap can be avoided.

- ❖ **Business Condition:** The most important task of the CRO to monitor the business frequently, it will help him to understand whether the business is running well or not, and accordingly advice the borrower, whenever necessary. The frequency of monitoring should be at least once month if all things are in order.
- ❖ **Production :**The CRO will monitor the production activities of the business and if there is any problem in the production process, the CRO will try to help the entrepreneur to solve the problem. On the other hand the CRO can also stop the misuse of the loan other than for the purpose for which the loan was disbursed.

- ❖ **Sales:** Monitoring sales proceed is another important task of the CRO it will help him to forecast the monthly sales revenue, credit sales etc. which will ensure the recovery of the monthly loan repayments from the enterprise as well as to take necessary steps for future loans.
- ❖ **Investment:** It is very important to ensure that the entire loan has been invested in the manner invented. If the money is utilized in other areas, then it may not be possible to recover the loan.³⁶
- ❖ **Management of raw materials:** In case of a manufacturing enterprise, management of raw materials is another important area for monitoring. If more money is blocked in raw materials then necessary, then the enterprise may face a fund crisis. On the other hand the production will suffer if there is not enough raw materials.

3.10 Monitoring System:

- ❖ **The CRO can consider the following things for monitoring:**
The CRO will monitor each business at least once a month. He/she will make a monitoring plan/ schedule at beginning of the month During monitoring the CRO must use the prescribed monitoring from and preserve in the client file and forward a copy of the report to SME head office immediately.
- ❖ **An SME branch will maintain the following files:**
The files will contain- Purchase Receipt, Delivery Memo's, Quotations In addition, all other papers related to furniture and fixture procurement
- ❖ **Other fixed assets and refurbishment:**
All fixed assets and refurbishment related papers such as purchase receipt, Delivery memo's, Quotation, Guarantee and Warrantee papers, Servicing related papers and any other paper related to fixed assets are refurbishment will be in this file.
- ❖ **Lease agreement file:**
This file will contain all papers related to lease agreement between the SESDS office and owners of the leased premises.
- ❖ **Individual client file:** Individual files are to be maintained for each borrower and will hold loan application, Loan Proposal, Copies of Loan Sanction Letter, Disbursement Memo, Monitoring Report, CIB application and Report, Credit report from other bank and all other correspondents including bank receipt.

- ❖ **Statement file:** All types of statement sent to SME head office will be kept in this file chronologically
- ❖ **Office instruction file:** All kind of office instruction regarding administration should be kept in this file
- ❖ **Operating instruction and guideline files:**All kind office instruction and guidelines related to operating should be kept in this file.
- ❖ **New forms introduction file:** All minutes of meeting, whenever held, should be kept in this file.
- ❖ **Security documents and legal aspect file:** One set of security documents and lawyer's opinions and suggestions regarding issue will be kept in this file. The original should be send to SME head office on a weekly basis.
- ❖ **11.Survey form file:** After conducting survey, all survey will be kept in this file chronological.

3.11 SME Reconciliation Project:

A large portion of our SME (Small & Medium Enterprise) loan clients do not maintain any deposit accounts with BRAC Bank Limited (BBL). Disbursement and repayment of these loans are routed to BBL through several correspondent banks. They are as follows:

- Pubali Bank Ltd.(PBL)
- Agrani Bank Ltd.(AGB)
- City Bank Ltd.(CBL)
- Rupali Bank Ltd.(RBL)
- Janata Bank Ltd.(JBL)
- Bangladesh Krishi Bank (BKB),
- Sonali Bank Ltd. (SBL) & National Bank Ltd.(NBL).

And transactions in our books so have to be matched with that reflected in the monthly statements of those correspondent banks.

3.12 SME Reconciliation Process:

After receiving loan installment from SME client CRO (Customer Relationship Officer) deposit installment amount in correspondent bank account every month and provide deposit slip & money receipt to clients. Besides, CRO sent SMS and advice to Banking Service department

with deposit amount, Loan account number & correspondent bank code. Banking Services Dept. under Operations at Head Office (HO) passes the repayment entries through RSP Module against SMS/advice as per our centralized banking process. Which is presently reconciled by Operations at Head Office through:-

- ❖ Weekly matching of repayment entries based on field SMS with original bank Deposit Slips and Money Receipts (DS&MR) sent from SME Unit Offices; and
- ❖ Monthly cross checking of the BBL ledger entries with our correspondent bank account statements collected and sent by SME Unit Offices.

Major Problems:

- ❖ Brac Bank never receives all Deposit Slips & Money Receipts from SME field offices for verifying despite of circulars and reminders issued from time to time.
- ❖ Always there is approx 1.5 months reconciliation gap as CROs collect bank statements, write loan account numbers on it and then send to FIS, after which these are reconciled.
- ❖ Checking accuracy is also not guaranteed.
- ❖ CROs often send multiple SMS against a single repayment; of them some are correct and others are not but the correct ones could not be passed for account showing credit balance.
- ❖ CROs also send SMS for full amount though repayments are made in 2/3 or more parts and that too in different dates.
- ❖ CROs quote wrong amounts (over and short) and wrong loan account numbers in some cases and sometimes send false SMS or SMS before actual date of deposits to avoid their overdue loan portfolio.
- ❖ In aforesaid events, loan account closing is largely affected and worst is when a wrong loan account is closed in system before the mistake is identified.
- ❖ CROs also send messages against cheque deposit by clients before it is cleared and booked in BBL's correspondent bank accounts.
- ❖ Bank's interest income is affected and do not reflect truly for the above issues and in many cases we have to seek interest waivers from management for loan closing purpose.

Project Objectives:

- ❖ Reconcile all entries (especially repayments) of currently active SME loan accounts.
- ❖ Identify fraudulent entries exposing the bank to potential losses and reputation risks.
- ❖ In depth review exercise to find out scope for any reconciliation process time saving.
- ❖ Bring down the number of unadjusted & un-reconciled entries at a controllable level.
- ❖ Ensure compliance to regulatory requirements and avoid any penalty imposition.
- ❖ To discourage malpractice.
- ❖ To develop awareness to maintenance Money receipts and deposit slip.
- ❖ To gear up knowledge about process and policy.

Closing procedures of SME loan:

Pre-closing manual activities:-

- ❖ **Receive SMS/Fax requesting for closing:** The borrowers repay the loan as per repayment schedule. When the repayment is being complete the borrower request the unit office/CRO to close his loan account. The unit office/CRO sends a SMS/Fax the loan administration division requesting to close the loan account of the respective borrower.
- ❖ **Print the SMS/Fax:** Receiving the request from the respective unit office/CRO, the loan administration division takes a paper print and takes necessary steps to close the account.
- ❖ **Bring the loan file from archive:** The loan account file of the respective borrower is brought from the archive. And the documents of file are checked with MBS record.
- ❖ **Obtained approval from the concern authority:** it is require the permission of concerned authority to close the loan. If concerned authority approved the closing of the loan account then next initiatives are taken.
- ❖ **Checking in MBS:** The loan administration division checks the loan status in MBS. If there is any difference found with the SMS/Fax from unit office and MBS then deposits sleeps are re-checked. Then the loan administration division calculates the total balance of the loan account (Ledger balance + buffer interest +Excise duty)
- ❖ **SMS sent to concerned CRO:** Loan administration division sent an SMS to the concerned CRO informing the current balance of the requested loan account.
- ❖ **Receive and print closing SMS/Fax checking & freezing:** The concerned CRO send a final SMS to loan administration division informing that the respective borrower cleared

all his liabilities regarding the loan. The loan administration division takes paper print of the SMS, check it and finally close the loan account.

Post closing manual activities:

- ❖ **Re-checking with deposit slip:** Completing MBS activities, the loan administration re-checks all deposit sleeps of the loan account. If there is any error found then it is immediately resolved, otherwise the file sends to the archive for future requirements. The client may take repeat loan in future and then information from this file will help to approve and disburse loan, which will minimize risk. If the client asks to return security then the loan administration releases security completing following tasks:
- ❖ Documents photocopy before security release .
- ❖ Closing certificate issuing and security release .



PART FOUR
FINDINGS & ANALYSIS

Findings:-

BRAC bank, as we know, is one of the fastest growing banks in Bangladesh. SME banking which has made the performance of this bank so enlightened is its core product to offer to the small and mediocre business entrepreneurs. In fact no businessman could think ever before that they could take loan so easily, without any collateral and without going to bank. But BRAC Bank has made this improbable process so successfully through SME banking.

However from the analysis of SME loan repayment behavior I can make the following findings:

- ❖ Age have a significant impact on the recovery of SME loan. Young entrepreneurs have a lower rate of recovery. On the other hand as middle aged and experienced entrepreneurs are very loyal with their loan repayment they can make proper and timely repayment of their loans. And that's why most of the SME loan borrowers age ranges from 30 to 40.
- ❖ Education does not have any direct relationship with the recovery rate. In fact, Most of the entrepreneurs of retail and whole business (small or medium in size) are not highly educated. Most of them studied up to class 9 or 10. Sometimes there are some entrepreneurs who have only alphabetic knowledge or who can give their signature only. But still they are running their business so well for many years. In this case experience makes them successful in their business. So, education does have much impact on these small and medium enterprises and also on the recovery rate of SME loans. Experience is the most significant variable, which has a great impact on any kind of business and recovery rate as well. Experienced entrepreneurs run their business so tactfully, identify the exact time what is their pick time of sales and when they need fund. They take the loan in the pick season when they have excess demand but short of capital. Then they ensures the best use of the loan and finally they reach to success and make the dully installments. So their recovery rate is good and that's why Brac bank looks always for experienced entrepreneurs. Number of installments and amount of loan taken do affect recovery rate slightly. But trends show that BRAC bank prefers to disburse loan of an amount of 300000 and at a term of 18 to 24 months.
- ❖ Another variable affecting recovery rate very much is the income of the borrowers. The higher the existing income of the borrowers, the lower the rate of default. Higher income groups make the best use of the loan they have taken and get success. On the other hand lower income group may misuse the loan and ultimately may default in paying installments. Personal or family asset might have some impact while sanctioning the loan as well as when recovering the loan installments. Suppose if a borrower fails to pay one of his installments, bank can find his personal assets as back up for the recovery of the installments. Retail business and wholesale business both types of businesses get loans from Brac Bank but whole sellers have a higher recovery rate as their business transactions occur at lot size and their collection is much quick. Finally we can say that SME loan is a loan given especially to entrepreneurs who are experienced small or

medium businessmen, more or less middle aged, at least moderate income generated and who have reasonable personal or family asset. That's why their recovery rate is so high that is 97%. And their default rate is so small compared to other loan categories. Sometimes borrowers go for early settlements of their loans.



PART FIVE
SWOT ANALYSIS

SWOT Analysis:-

SWOT analysis is an important tool for evaluating the company's Strengths, Weaknesses, Opportunities and Threats. It helps the organization to identify how to evaluate its performance and scan the macro environment, which in turn would help organization to navigate in the turbulent ocean of competition.

Strengths:

Company reputation: BRAC bank has already established a favorable reputation in the banking industry of the country particularly among the new comers. Within a period of 5 years, BBL has already established a firm footing in the banking sector having tremendous growth in the profits and deposits. All these have lead them to earn a reputation in the banking field

Sponsors: BBL has been founded by a group of eminent entrepreneurs of the country having adequate financial strength. The sponsor director belongs to prominent resources persons of the country. The Board of Directors headed by its Chairman Mr. F H Abed. Therefore, BBL has a strong financial strength and it built upon a strong foundation.

Top Management: The top management of the bank is also major strength for the BBL has contributed heavily towards the growth and development of the bank. The top management officials have all worked in reputed banks and their years of banking experience, skills, expertise will continue to contribute towards further expansion of the bank. At BBL, the top management is the driving force and the think tank of the organization where policies are crafted and often cascaded down.

Facilities and equipment: BBL has adequate physical facilities and equipments to provide better services to the customers. The bank has computerized and online banking operations under the software called MBS banking operations. Counting machines in the teller counters have been installed for speedy service ant the cash counters. Computerized statements for the customers as well as for the internal use of the banks are also available.

Impressive branches: This creates a positive image in the minds of the potential customers and many people get attracted to the bank. This is also an indirect marketing campaign for the bank for attracting customers. 13 branches of the bank are impressive and are compatible to foreign banks.

Interactive corporate culture: BBL has an interactive corporate culture. Unlike other local organization, BBL's work environment is very friendly, interactive and informal. There are no hidden barriers or boundaries while interacting among the superior or the subordinate. The environment is also lively and since the nature of the banking job itself is monotonous and routine, BBL's likely work environment boosts up the spirit and motivation of the employees.

Teamwork at mid level and lower level: At BBL's mid level and lower level management, there are often team works. Many jobs are performed in groups of two or three in order to reduce the burden of the workload and enhance the process of completion of the job. People are eager to help each other and people in general are devoted to work.

Weaknesses:

Advertising and promotion of SME loan: This is a major setback for BBL and one of its weakest areas. BBL's advertising and promotional activities are satisfactory but its SME loan is not advertised well. It does not expose its SME product to general public and is not in lime light. BBL does not have neon sign or any advertisement for SME loan in the city. As a result people are not aware of the existence of this bank.

NGO Name (BRAC): BRAC is one of the largest NGO of the world and it is operating its activities in Bangladesh. BRAC bank is not a NGO bank but many people of this country consider it as a NGO bank like Grameen bank which is not correct.

Low remuneration package: The remuneration package for the entry and the mid level management is considerably low. The compensation package for BBL entry-level positions is even lower than the contemporary banks. Under the existing low payment structure, it will be very difficult to attract and retain higher educated employees in BBL. Specially CRO's are not satisfied with compensation package provided to them.

Opportunities:

Diversification: BBL can pursue a diversification strategy in expanding its current line of business. The management can consider options of starting merchant banking or diversify in to leasing and insurance. By expanding their business portfolio, BBL can reduce their business risk.

Product line proliferation: In this competitive environment BBL must expand its product line to enhance its sustainable competitive advantage. As a part of its product line proliferation, BBL can introduce the following products.⁴⁹

ATM: This is the fastest growing modern banking concept. BBL should grab this opportunity and take preparation for launching ATM. Since BBL is a local bank, they can form an alliance with other contemporary banks in launching the ATM.

Threats:

Multinational banks: The emergence of multinational banks and their rapid expansion poses a potential threat to the new growing private banks. Due to the booming energy sector, more foreign banks are expected to arrive in Bangladesh. Moreover, the already existing foreign banks such as Standard Chartered are now pursuing an aggressive branch expansion strategy. This bank is establishing more branches countrywide and already launched its SME operation. Since the foreign banks have tremendous financial strength, it will pose a threat to local banks.

Upcoming banks: The upcoming private local banks can also pose a threat to the existing private commercial banks like BBL. It is expected that in the next few years more local private banks may emerge. If that happens the intensity of competition will rise further and banks will have to develop strategies to compete against an onslaught of foreign banks.

Contemporary banks: The contemporary banks of BBL such as Dhaka bank, prime bank and Dutch Bangla are its major rivals. Prime bank and other banks are carrying out aggressive campaign to attract lucrative clients as well as big time depositors.

Default culture: This is a major problem in Bangladesh. As BBL is a new organization the problem of non-performing loans or default loans is very minimum or insignificant. However, as the bank becomes older this problem arises and the whole community suffers from this chronic diseases. BBL has to remain vigilant about this problem so that proactive strategies are taken to minimize this problem if not elimination.



PART SIX
CONCLUSION

Conclusion and policy implication:-

In fact, BRAC Bank promotes broad-based participation in the Bangladesh economy through the provision of high quality and modern banking services. SME loan is one of such quality product through which they offer the small and mediocre entrepreneurs a quality banking services and earn the maximum profit as well. The recovery rate of this loan is 97%, which is extremely good in comparison to any other bank's recovery rate. Brac Bank has made it possible as the loan is given to experienced, small and mediocre entrepreneurs most of whom are middle aged, slightly educated and having moderate income and this class of people is very loyal. But they can serve this class of customers with more commitment and loyalty and they can turn the recovery rate to 100%. For this they can make the following policy implications:

- ❖ Commit resources specifically for growth of SME business.
- ❖ Implement strict and continuous monitoring system of the whole recovery process.
- ❖ Train the Customer Relationship officers more comprehensively and realistically so that customers may not face any trouble while getting and repaying the loan.
- ❖ Analyze customers' behavior that what type of customer makes default and stop giving them SME loan.
- ❖ Risk Management department's audit report should be more strict and reliable so that possible defaulter may not get the loan.
- ❖ Whether the borrowers are utilizing the loan on the right purpose should be ensured.



PART SEVEN

RECOMMENDATION

RECOMMENDATION:

Considering all the findings and analyzing all the data the following recommendations are made, which will benefit both BBL and its customers.

1. As we have seen that 11pm to 5pm is the main rush hour, so necessary CSA's should be allocated in that time. From the customers' suggestions we also found that it is very needed to increase the proper allocation of manpower to improve the service quality.
2. The number of telephone/mobile should increase so that customers can call at daytime. Telephone/mobile busy related troubles should be decreased.
3. The authority should minimize the problem solving duration and call waiting duration so that the overall customers' satisfaction increases.
4. Another very important thing from my personal observation is that one person calls for several times for the same problem, which increases the call frequency. Proper assurance and solution over phone can a better alternative to reduce extra calls and it also reduce the call waiting duration.
5. It was found that the DSAs (Direct Sales Agents) are mostly the source of providing miss information to the cardholders about their cards. So, necessary steps should be taken so that they avoid this practice and give proper product information.
6. Only understanding the customer problem will not highly satisfy them unless individual attention and caring highly satisfy them. So proper individual attention and caring should be more to highly satisfy customer.
7. From the CSAs somebody should make supervisors and they should give the responsibilities in different areas (currier, lost card, statement etc). It is very good news that for every evening shift there is one supervisor. But the concept of supervisor should change from shift wise to task wise.
8. Proper monitoring the activities of the call center could be better solution for handling queries.
9. The CSAs should provide more information to the cardholders so that their learning level become high resulting the high customers satisfaction. Considering the age of "24 – hour customer service" we can compare it with a new born baby. Therefore, like that baby the authority of the "24 – hour customer service" should develop strategic planning taking lessons from the past. They have to remember that the now customers have more choice and many alternatives. At the very end of the 'internship program' working three months, it can be expected that these above recommendations will help to rearranging some infrastructures, which will support the large customers based service of credit card division of BRAC Bank Limited.

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